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U.S. TREASURY DEPARTMENT

Republic of China (Taiwan)

Question #2

What is the state of the GRC economy and what are its prospects for growth? How much does the high level of military expenditures affect GRC economic prospects?

Answer:

Real GNP has grown by an average annual rate of 9% over the past 10 years. Per capita income reached a level of about $265 by the beginning of 1968, one of the highest in the region.

Agriculture has been growing at a satisfactory rate of more than 5% per year average during the past several years.

A high level of investment, particularly in the private sector, and rising exports have been the chief factors in Taiwan's growth success. Gross fixed capital formation reached 22% of GDP in 1967, compared with 15% in 1962. Merchandise exports grew by about 22% per year between 1961-1966, increased by a somewhat slower rate in 1967, and might well grow by 22% again in 1968. Exports have diversified and become more industrial in nature: Taiwan's leading exports are now plastics, plywood, textiles, canned foodstuffs, chemicals, with electronic equipment become increasingly important.

Imports have grown at a somewhat more rapid rate than exports but capital inflows and transfers have more than offset the trade deficits and have allowed Taiwan to build up its foreign exchange reserves to about $395 million by the late 1968, giving Taiwan a reserve level equal to more than six months imports, a comfortable level relative to other developing nations.

Investment in infrastructure has lagged behind private industrial investment with the result that bottlenecks are becoming more prevalent. To the extent that self-financed military expenditures have held back public investment in power, transportation, public utilities, then Taiwan's future economic growth will be adversely affected by the high level of military spending.

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Taiwan's fifth Four Year Plan (1969-1972) is dominated by the need for correcting the lag in infrastructure. This increase in infrastructure investment will have a tendency to raise the capital output ratio, and the annual rate of growth might fall to a level of between 7-8%.

In addition, in order to finance this increase in public investment expenditures in the next five years, Taiwan will have to increase government revenues, given the prospects for foreign capital inflow. A reduction in military expenditures from the present very high level would ease the pressure on resources and on government revenue, and considerably facilitate the growth of the economy and improvement in living standards.